

Top Secret



Central Intelligence Bulletin

State Department review completed

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January 17, 1974

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Approved For Release 2004/07/08 : CIA-RDP79T00975A026000100001-1

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*TUNISIA-LIBYA: Tunisia has effectively shelved its agreement for a union with Libya. Newly appointed Foreign Minister Chatti announced yesterday that his country will never unite with Libya as long as Morocco or Algeria opposes such a union. While avoiding a public statement that the merger was null and void, Chatti characterized the agreement as a declaration of principle rather than a program for concrete action.

Anticipating adverse reactions at home and from Libya, the government has instituted special security measures throughout the country and closed the border with Libya despite protests from Tripoli. On January 15, local police broke up a rally at Tunis University that had anti-Bourguiba overtones. The students were warned that they would be punished quickly if there were any further demonstrations.

Students, who responded favorably to the idea of union with Libya, will continue to be the most likely troublemakers. They believe a merger would offer new job opportunities and a greater role for Tunisia in Arab affairs. By contrast, middle-class Tunisians and probably the military distrust President Qadhafi and therefore oppose union with Libya.

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Defense Intelligence Agency, Department of Defense.

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JAPAN - SOUTHEAST ASIA: Tokyo, shocked by the intensity of the anti-Japanese demonstrations during Prime Minister Tanaka's visit to Indonesia, is taking a serious look at its economic activities in Southeast Asia.

Chief Cabinet Secretary Nikaido announced on January 16 that the government will shortly work out guidelines for the conduct of private business overseas. Tokyo apparently will exercise "administrative guidance," which in effect means extensive governmental supervision. According to press reports, Japan will also exercise closer control over both public and private economic aid.

Some criticism in Japan is being directed at the Foreign Ministry for underestimating the extent of anti-Japanese feeling in Southeast Asia in planning Tanaka's tour. Press reports indicate that a major study of underlying causes which prompted the anti-Japanese demonstration will begin as soon as Tanaka returns, and that a governmental mission will be dispatched to Southeast Asia to examine the practices of Japanese businesses.

The opposition parties in Japan have moved quickly to attack the government's handling of the situation. A top Socialist Party official claimed that the government's Asian policy, based on "economic intrusion" and "great-nation chauvinism," had failed, and the Communists similarly attacked alleged neo-colonialist economic policies. The opposition parties will attempt to embarrass the government by pressing this issue when the Diet reconvenes on January 21.

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EUROPEAN COMMUNITIES: The oil crisis and the possibility of future shortages of other primary products are causing international concern over how to ensure the supply of raw materials and how to establish rules for avoiding cut-throat competition among the industrial countries.

The EC Commission, as a result of suggestions made at the summit of the Nine in December, has embarked on a study that will lead to specific proposals by July for community policies to deal with primary product supplies. The first task of the Commission is to determine what nonferrous metals are likely to pose problems for Europe and which of these problems could be resolved by joint EC action. US assistance in the form of providing several official studies has been requested.

Despite their current competitive scramble for oil, the EC members are probably worried that if each country concentrates on assuring its own supply of raw materials the result would be incompatible with European economic integration. The development of raw material sources may also prove too expensive for individual countries to undertake alone. Even with regard to oil, the British--in a note circulated this week in NATO--have expressed their readiness to subsume bilateral deals in an EC framework.

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MEXICO: The level of sporadic violence in Mexico has subsided in recent weeks, but government officials fear a renewal of the terrorism in various parts of the country. Despite this concern, the guerrillas do not pose a threat to stability and are not likely to generate widespread popular support.

Their activities, however, have created political problems for the government. They have sparked serious public criticism of President Echeverria's administration and have widened the conservative business community's alienation from the government and its policies.

So far, the government has reacted to terrorism with only rhetoric [redacted]

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[redacted] The rhetoric is slightly more candid in recognizing that guerrillas exist, but government spokesmen have attempted to play down the national significance by asserting that Mexico is a mere victim of an international wave of violence and that the violence is of foreign origin. [redacted]

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Last fall, guerrillas caused Echeverria's administration to endure the most serious crisis of confidence since the student massacre of June 10, 1971. The unsettled period was touched off by the murder of two prominent businessmen by politically motivated urban guerrillas. Government policies were immediately attacked by a broad segment of the Mexican public. Conservative businessmen and other wealthy persons were particularly outraged, feeling that the government was not protecting their personal or political interests. [redacted]

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INDONESIA: Bands of young Indonesians continued to roam Jakarta's streets yesterday. Violence and vandalism declined somewhat, although several cars were destroyed and a building owned by the state oil company was burned--the first incident involving government property. Student demonstrators, sometimes as many as 5,000, called for changes in government economic policies and for dismissal of presidential advisers closely identified with Japanese and overseas Chinese business interests.

State security chief General Sumitro warned last night that the army is abandoning its lenient treatment of protesters and will now arrest anyone caught disturbing the peace. Army units did not enforce the Monday night curfew or Tuesday's ban on assembly in groups of five or more; during the initial violence troops reportedly stood idly by as youths burned stores and automobiles.

There is no clear explanation of the army's lack of decisive action. There are several possibilities:

--a deliberate government policy to make a point with the Japanese,

--unpreparedness for widespread violence,

--fear of precipitating a massive confrontation with students that could challenge the government, or

--deliberate exploitation of the situation by some generals, stemming from intra-army rivalries.

The army's failure to prevent a general breakdown in urban security has already given rise to recriminations among top military leaders, particularly against security chief Sumitro, and could lead to political realignments within the ruling elite.

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ISRAEL-EGYPT: For the third day in a row, Israeli troops yesterday halted supply convoys for Suez and the encircled Egyptian Third Army because of continuing Egyptian cease-fire violations. An Egyptian protest can probably be expected. Israel is concerned over the casualties its forces have taken as a result of these violations. Tel Aviv reports 24 killed and 93 wounded on the Egyptian front alone since October 27, shortly after the cease-fire was declared. [REDACTED]

**This item was prepared by CIA without consultation with the Departments of State and Defense.*

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